

International Outlook

Special Focus - Caribbean

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Summary

- 10-25% reduction in Q1-09 revenues
 - Affecting most major market flows
 - Fewer premium passengers and discretionary tourists
- Demand evaporation at the time of
 1. Unprecedented capacity growth
 2. Drive to long-haul luxury (“Flatter than flat – flat bed”)
 3. Relatively new industry widebody fleet
- Closest recent analytical parallel(s)
 - Trans-con market after tech-bubble burst
 - Japan-USA after Japanese bubble burst

What if oil prices had stayed high?

When/How will it stop?

- When demand stabilizes – (not “recovers”)
 - Consumer confidence will fuel ethnic and discretionary tourist normalcy
 - Business traffic pick up will be much more gradual
- When remaining “old” capacity is retired
 - Older-767, older-747, MD11, A340, etc.
- When international failure/consolidation accelerates
 - Europe in high gear (Alitalia, Brussels, SAS, etc.)
 - Asia/Middle East - TBD

Bottom hit - when “exuberance” gone

Is the Caribbean a Microcosm?

- No
 - Capacity growth ~flat over 5 years
 - No luxury products. Similar to US-domestic
 - Ethnic and tourist traffic
 - Uses narrow-body (redeployable) aircraft
- Jamaica is representative Caribbean market
 - Ethnic, tourist, business traffic
 - 65%-35% in USA vs Rest of World passenger mix
 - Rational competition
 - But victim of hotel building boom (“Vegas” effect)

How is Jamaica faring? Any implications?

Jamaica

- 15% revenue reduction observed in near term
- Non-tourism demand resilient
 - Ethnic/Diaspora customers traveling at lower fares
 - Some demand weakness in business markets
- Big changes in tourist demand
 - “Flight to value” for tourists. Double-digit increases in charter+all-inclusive passengers
 - Primary driver is hotel cost at 4x air fares
- Lessons: Tried and tested solutions work!
 - Provide customers value for money
 - Have costs low enough to be able to fly ethnic markets

Air Jamaica

- Changed conditions
 - Tighter market and competition
 - Transition from “National Champion” to stand-alone, profitable airline
 - Be ready for privatization
- Response
 - Eliminate flying (20%) in perpetually loss-making markets
 - Increase asset utilization by 25%
 - Get overhead in line with size
 - Refocus on strength markets (ethnic/Diaspora)

GOAL

Break-even EBITDA in today's environment

Conclusion

- Cause of Global Crisis:
 - Build expensive assets
 - For temporarily wealthy customers
- Cause of Aviation Crisis – SAME:
 - Too many new airplanes with luxury seating
 - For temporarily wealthy passengers
- Will the solutions will be the same?
 - No. Cannot print money or run deficits

Old-fashioned solution
“Low Costs, High Value, Match Demand”